

16.01 Reporting the Results of Operations

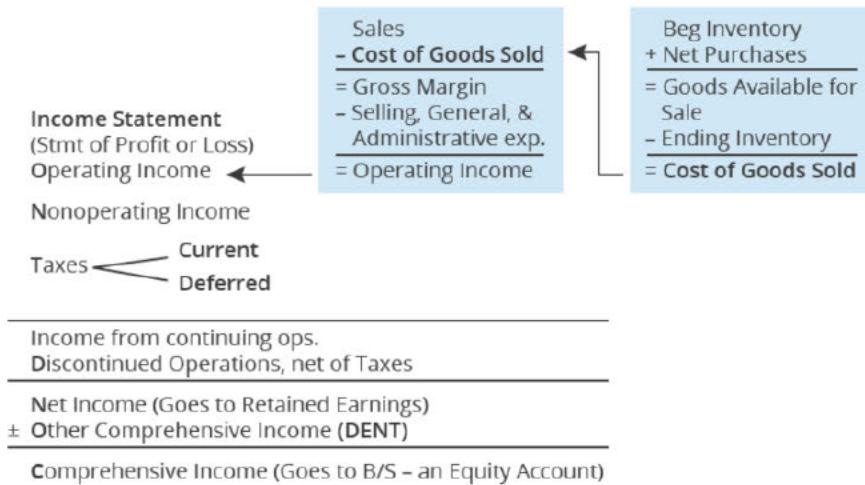
Statement of Earnings

The current FASB presentation of Results of Operations is a Statement of Earnings and Comprehensive Income. It includes up to **3 different sections**:

- Income from Continuing Operations
- Discontinued operations
- Other Comprehensive income (OCI)

Income from Continuing Operations may be prepared using **two different formats**:

- Multiple-step income statement
- Single-step income statement
 - The **multiple-step** approach includes subtotals for gross profit, operating income, and income before taxes, while the **single-step** approach does not. Nevertheless, income from continuing operations is identical under the two approaches.



Multiple Step (ON-TIDe-N-OC)

Roger Company
Statement of Earnings and Comprehensive Income
(Statement of Profit or Loss)
For the Year Ended December 31, 20X3

| | | |
|--|----------------|------------------|
| Sales | | \$2,000,000 |
| <u>Cost of sales</u> | | 600,000 |
| Gross profit | | 1,400,000 |
| Less: | | |
| Selling expenses | \$340,000 | |
| General & administrative expenses | 260,000 | |
| <u>Depreciation Expense (impairment loss - public co)</u> | <u>100,000</u> | <u>700,000</u> |
| Operating income (O) | | 700,000 |
| Other income and (expense): (Nonoperating) | | |
| Interest/Dividend income | 10,000 | |
| Interest expense/unusual and/or infrequent items | (20,000) | |
| Loss due to earthquake | (72,000) | |
| <u>Gain on sale of equipment/Investments (imp loss - nonpublic)</u> | <u>30,000</u> | <u>(52,000)</u> |
| Income before income tax | | 648,000 |
| Provision for income Tax (T): | | |
| Current | 150,000 | |
| <u>Deferred</u> | <u>40,000</u> | <u>190,000</u> |
| Income from continuing operations (I) | | \$ 458,000 |
| Gain (loss) from operations of Discontinued component unit, (ASC 205) | | |
| <u>net of tax of \$30,000 (De)</u> | | <u>45,000</u> |
| Net income (N) | | <u>\$503,000</u> |
| Other Comprehensive income (OCI) (DENT) | | |
| Derivative Cash Flow Hedge Gain/Loss (net of tax) | | xxx |
| Excess adjustment of Pension PBO and FV of Plan assets at year end | | (xxx) |
| Net Unrealized holding gains (AFS) arising during period (net of tax) | | xxx |
| <u>Translation adjustment of Foreign currency (net of tax)</u> | | <u>xxx</u> |
| Other comprehensive income | | xxx |
| Comprehensive Income (C) | | \$xxx,xxx |
| Earnings per share: | | |
| Income from Continuing operations | | <u>\$2.29</u> |
| Income from Discontinued operations | | .23 |
| Net income per share | | <u>\$2.52</u> |

| Single step |
|-----------------------------------|
| Revenues |
| - Expenses |
| Income from continuing operations |
| De |
| Net Income |

Operating Income ("O")

Sales or revenues from contracts with customers are recognized when the promised goods or services have been delivered to the customer or, when certain criteria are met, while the goods or services are being delivered. Revenues that do not arise from contracts are recognized when the entity no longer has any obligations to provide goods or services to the customer and it is not likely that revenues received will be required to be returned to the customer.

Recognize **expenses** or losses when economic benefit is used up (as **incurred**):

| |
|---|
| Cost of goods sold (COGS) |
| Beginning inventory |
| + <u>Net purchases (COG manufactured)</u> |
| Cost of goods available for sale |
| - <u>Ending inventory</u> |
| = COGS |

Note: Freight-in is included in net purchases.

- **Selling Expenses** – Salaries and commissions, advertising, freight out

Note: Freight out may be included in either cost of goods sold or selling expenses.

- **General and Administrative Expenses** – Officers' salaries, accounting and legal, insurance

Note: Credit loss expense could be either a Selling or G&A expense.

Nonoperating Items ("N") (Other Income/Expense, Gains/Losses)

- Interest income or expense, dividend income, gain/loss on sale of PP&E or Investments, foreign currency transactional gains/losses, unrealized gain/loss from Trading securities, and gains, losses, revenues, and expenses that are unusual or infrequent or both.
- The tax effects related to these items are included in the tax provision.

Taxes ("T") (Provision for Taxes)

- Current income tax expense (current taxable income × current tax rate)
- Deferred income tax expense (temporary differences × enacted tax rate)

= Income from continuing operations ("I")